

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 7553**

**BILL NUMBER:** HB 1001

**NOTE PREPARED:** May 1, 2011

**BILL AMENDED:** Apr 29, 2011

**SUBJECT:** Budget Bill.

**FIRST AUTHOR:** Rep. Espich

**FIRST SPONSOR:** Sen. Kenley

**BILL STATUS:** Enrolled

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☒ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill does the following.

*State Appropriations-* The bill appropriates money for capital expenditures, the operation of the state, the delivery of Medicaid and other services, and various other distributions and purposes.

*Revenue Surplus-* It provides for disposition of an excess state reserve.

**K-12 Education**

*School Formula-* The bill provides a tuition support distribution formula for public elementary and high schools.

*Various School Provisions-* The bill also makes changes related to collective bargaining of school employees, vacation leave for deaf and blind school employees, textbook reimbursement, and other education provisions. It provides for turnaround academies.

**Higher Education**

*Tuition and Fee Limits-* The bill specifies a schedule for establishment of recommended limits on higher education tuition and fee increases.

*Miscellaneous Higher Ed Changes-* The bill mandates participation of universities in the state health plan if required by the Budget Agency. The bill makes changes in university capital project procedures and makes changes to higher education scholarship programs and dual credit programs.

#### Various Tax Provisions

*Internal Revenue Code Update-* This bill updates references to the Internal Revenue Code and decouples Indiana from certain changes made to federal income tax law.

*Deductions and Credits-* The bill changes deductions and credits and requires certain tax preparers to file electronic returns.

*Cigarette Tax Revenues-* The bill changes the distribution formula for the cigarette tax.

*Sales and Use Tax Provisions-* The bill changes the distribution formula for the Sales Tax. The bill also exempts meals served at a legislative meeting from the gross retail tax.

#### Horse Racing and Gaming Provisions

The bill changes the distribution formula for racino assessments.

#### Salaries and Personnel

*State Civil Service System-* The bill reorganizes the state public employee civil service.

*Retirement Benefit Programs-* It makes changes in retirement benefit programs for certain state public safety employees.

*Legislative and Judicial Salaries-* The bill freezes salaries of legislators, and permits increases in judicial salaries only if approved by the Chief Justice.

*Thirteenth Checks-* The bill provides for a thirteenth check to certain retired public employees.

#### Social Services

*Family and Social Services Administration (FSSA) Boards and Committees-* The bill terminates and transfers responsibilities of the Family and Social Services Committee, the Indiana Tobacco Use Prevention and Cessation Executive Board, and the Community Residential Facilities Council.

*Program Changes-* The bill also makes changes in the Medicaid program and other health benefit programs, the First Steps program, and the Indiana Comprehensive Health Insurance Association (ICHIA) program.

It imposes a moratorium on new Medicaid beds. The bill also authorizes the adoption of emergency rules for programs administered by FSSA. The bill makes changes related to distributions to hospitals. The bill also

provides for a Quality Assurance Fee (QAF) on nursing homes and hospitals. The bill establishes the Council on Evansville State Hospitals and provides for infant screening.

*Department of Child Services (DCS) Guardianships-* This bill also makes changes in the DCS guardianships.

#### Miscellaneous State Provisions

*Quorum-Breaking Provisions-* The bill permits an action to recover a civil penalty from a member of the General Assembly who is absent from the member's chamber with the result that the member's body is unable to form a quorum.

*Lobbyist Reporting-* The bill defines travel expenses for purposes of lobbyist reporting laws.

*Public Deposit Insurance Fund (PDIF) Loan-* It extends the time in which to repay a loan to the PDIF.

*Medical Expenses for Inmates-* The bill limits medical expense liability for inmates.

#### Courts

*Court Fees-* The bill changes court fees.

#### Local Taxes and Local Provisions

*Local Option Income Tax (LOIT) Provisions-* This bill also provides additional information to local units concerning LOIT collections and changes the method of calculating supplemental distributions.

*Food and Beverage Taxes and Innkeeper's Taxes-* It makes changes in the distribution of revenue from certain food and beverage taxes and innkeeper's taxes. The bill also indicates when the Allen County supplemental food and beverage tax expires.

*Alcoholic Beverage Permits-* This bill permits the issuance of alcoholic beverage permits in certain smaller cities.

*Bonding Provisions-* The bill limits the term of future Port Commission bonds to 25 years. It permits the issuance of refunding bonds to extend the payment period for certain bonds.

#### Miscellaneous Provisions

The bill also provides for various studies and makes other changes

**Effective Date:** Upon passage; January 1, 2010 (retroactive); June 30, 2010 (retroactive); November 1, 2010 (retroactive); January 1, 2011 (retroactive); April 29, 2011 (retroactive); June 1, 2011; July 1, 2011; July 1, 2011; January 1, 2012.

**Explanation of State Expenditures:** The bill has the following state expenditure impacts.

*State Appropriations:* The following summary is for state appropriations during FY 2012 and FY 2013.

<b>Appropriations by Function (SECTION 1-35)</b>	<b>FY 2012 **</b>	<b>FY 2013 **</b>
General Government	\$558,012,584	\$611,866,482
Corrections	664,752,203	672,548,200
Other Public Safety	97,712,857	97,784,763
Conservation and Environment	73,239,701	73,239,701
Economic Development	51,196,413	61,196,413
Transportation	42,581,051	42,581,051
Mental Health	245,563,984	245,563,984
Public Health	30,332,681	30,332,681
Medicaid	1,857,803,064	2,023,803,064
Family and Children	175,108,656	176,184,123
Social Services and Veterans	780,282,833	780,282,833
Higher Education	1,696,072,128	1,701,724,252
Education Administration	15,545,831	15,545,831
Tuition Support - GF	6,262,800,000	6,308,700,000
Social Security - Teachers	2,403,792	2,403,792
Teacher's Retirement - GF	725,400,000	747,200,000
Other Local Schools	269,940,364	268,940,364
Other Education	9,188,753	9,188,753
Distributions *	161,500,000	161,500,000
<b>Total Operating</b>	<b>\$13,719,436,895</b>	<b>\$14,030,586,287</b>
Construction - Higher Ed		
Construction - Other	\$270,129,354	\$261,918,731
Total Construction	\$270,129,354	\$261,918,731
<b>Total GF (Operating + Construction)</b>	<b>\$13,989,566,249</b>	<b>\$14,292,505,018</b>
BIF	\$14,201,889	\$14,201,889
Other Dedicated - Operating	1,799,354,638	1,332,485,844
Other Dedicated - Construction	38,673,677	37,308,204
Tobacco Settlement	132,143,110	132,143,110
Federal	916,130,000	971,070,000
<b>Total (Dedicated and Federal)</b>	<b>\$2,900,503,314</b>	<b>\$2,487,209,047</b>
<b>Total - All</b>	<b>\$16,890,069,563</b>	<b>\$16,779,714,065</b>
* Distributions total does not include \$8.1 M in each year of the biennium for the Alcoholic Beverage Commission Gallonage Tax, which is in current statute but is not in this bill.		
** Biennial appropriations are distributed in each fiscal year based on the timing of expenditures anticipated by the State Budget Agency.		
Source: State Budget Agency		

## K-12 Education

*School Formula-* The bill specifies the school formula for CY 2012 and CY 2013. The bill makes the following modifications from the 2011 school formula for 2012 and 2013.

1. *Foundation Grant:* The bill decreases the foundation grant from \$4,505 in CY 2011 to \$4,280 in CY 2012 and \$4,405 in CY 2013. The free or reduced lunch percentage used in the formula is updated to the 2011 school year's percentage of students eligible for free or reduced lunch. The free and reduced lunch funding level in the complexity index is reduced from \$2,241 for CY 2011 to \$2,129 in CY 2012 and increased to \$2,190 in CY 2013.

2. *Complexity Index:* The bill changes the adjustment to the complexity index for a complex school corporation (i.e., a corporation with more than 50% of its students eligible for free or reduced lunch). The base index number used to compute this adjustment is increased from 1.25 in CY 2011 to 1.28 in CY 2012 and 1.31 in CY 2013. The difference between the initial index and 1.28 in CY 2012 (1.31 in CY 2013) would still be added to the initial index.

3. *Adjusted ADM:* The formula does not use the 3-year average in the calculation of the adjusted ADM. In CY 2011, the adjusted ADM was the greater of a school's 3-year average ADM or the current year's ADM. The adjusted ADM for a school corporation in CY 2012 and CY 2013 would be the current year's ADM.

4. *Small School and Restore Grants:* These grants have been eliminated.

5. *Transition-to-Foundation:* The bill continues the transition-to-foundation concept in the current school formula, but the computation has been changed. In CY 2011, this amount was computed by comparing the current year's target revenue to the previous year revenue foundation amount. The previous year revenue foundation amount was adjusted upwards by a minimum of \$50 or downwards by a minimum of \$150, depending on the difference (divided by 8) between the target revenue and the previous year revenue foundation amount. This bill makes the following changes while keeping the basic concept in place:

a. The current year's target revenue is increased based on the ADM of the school corporation. It is increased by \$150 per student if the ADM is between 500 and 1,000 students. Corporations with an ADM count below 500 would get no increase; for those whose ADM is above 1,000, the increase per student would be prorated so that the total increase is no more than \$150,000.

b. If the previous year revenue foundation is greater than 20% above the target revenue (increased by the ADM adjustment), it is reduced to be 20% above the adjusted target revenue.

c. At this point the computation is the same as for CY 2011 except that the difference is divided by 7 in CY 2012 and 6 in CY 2013. Additionally, corporations that are below foundation are taken immediately to foundation; if the corporation is above foundation, the decrease would be the difference divided by 7 (in CY 2012) or 6 (in CY 2013).

6. *Corporations with ADM less than 100:* In CY 2011, the computation of regular program revenue for schools is the transition-to-foundation grant multiplied by the adjusted ADM; however, if the ADM of the corporation is less than 100, the current ADM is used instead of adjusted ADM. Under this bill for CY 2012 and CY 2013, the adjusted ADM is the same as the current ADM, so this particular computation is no

longer needed.

7. *Prime Time Grant*: The bill phases out the minimum guarantee over two years. In CY 2012, the guarantee would be reduced by 50%; in CY 2013, it would be set at \$0. Additionally, in determining the applicable pupil/teacher ratio, the upper limit of the complexity index is increased from 1.2 to 1.3 (the lower limit would remain at 1.1).

8. *Academic Honors*: The bill extends the Honors Grant program to include students who successfully complete a Core 40 diploma with technical honors.

The following shows the CY 2012-2013 school formula estimates.

	CY 2011	CY 2012	% Diff	CY 2013	% Diff
<b>State Regular</b>	5,655,019,503	5,536,131,894	-2.1%	5,601,056,731	1.2%
<b>Special Education</b>	503,456,723	505,824,343	0.5%	508,384,729	0.5%
<b>Career &amp; Technical</b>	96,474,400	99,160,615	2.8%	102,419,375	3.3%
<b>Prime Time</b>	127,403,888	120,413,488	-5.5%	111,885,099	-7.1%
<b>Honors</b>	16,127,100	16,253,046	0.8%	15,828,975	-2.6%
<b>Restoration 2009</b>	160,111,951	-	-	-	-
<b>Small School</b>	16,417,623	-	-	-	-
<b>Reduction</b>	327,304,225	-	-	-	-
<b>Total</b>	6,247,706,963	6,277,783,386	0.5%	6,339,582,776	1.0%

*Textbook Reimbursement*: Under current law, the Department of Education (DOE) may reimburse a school corporation for some or all of the cost of providing textbooks to students on free or reduced lunch. Under this bill, in CY 2012 and after, the reimbursement would be mandatory and would be computed on a per pupil basis rather than the cost of the textbooks.

In FY 2011, the state budgeted \$39 M for textbook reimbursement and the bill appropriates the same amount for FY 2012 and FY 2013.

#### *Charter Schools-*

*Virtual Charters*: The bill changes the current virtual charter school formula from 80% of the statewide average basic tuition support in current law and the 85% of the state foundation amount times the virtual charter school's complexity index from HEA 1002 (2011) to 87.5% of the state foundation amount times the virtual charter school's complexity index. Virtual charter schools would also be eligible to receive special education funding in the school formula.

There is currently a 500-student enrollment limit for virtual charter schools in 2011. However, this bill eliminates the cap on the number of students that may be enrolled in a virtual charter for years beginning in 2012. The impact of changing the 80% of the state average to 87.5% of the school's foundation amount plus special education grant would increase virtual charter school revenue by about \$238,200 for CY 2012 and \$342,400 for CY 2013. The impact on future school formulas would depend on whether the increase caused the school formula to exceed the calendar year maximum. The net costs could be reduced, since 60% of new students in the virtual charter school have to have been included in the school formula ADM of some public

school the previous year.

*New Charter School Startup Grant:* The amount of this grant is projected to be approximately \$4.9 M in 2012 and \$4.85 M in 2013. The grant is to be paid from the Charter School Facilities Assistance Fund. The bill appropriates \$8 M to this fund in FY 2012 and \$9 M in FY 2013.

*Vacation Time for School for the Deaf and School for the Blind-* Under current law, both the Indiana School for the Deaf and the Indiana School for the Blind and Visually Impaired are state merit agencies. Teachers are subject to a salary schedule, using a daily rate of pay for each teacher, that is equal to that of the largest school corporation in the county in which the schools are located (i.e., Indianapolis Public Schools (IPS)). However, the vacation schedule for teachers is governed by state personnel rules with the exception that they do not accrue vacation time during the summer months when school is not session.

Under this bill, the vacation schedule of the employees at the two schools would no longer be governed by the state personnel rules but would be the same as IPS. Teachers in IPS are on 10-month contracts with no vacation time. Administrators have a choice of an 11-month contract with 120 hours of vacation or 12-month contracts with 160 hours of vacation. The two schools are expected to save approximately \$150,000 annually under this provision.

[State personnel with 1 to 4 years of service are entitled to 90 hours of vacation time per year; those with 5 to 9 years, 112.5 hours; those with 10 to 19 years of service, 150 hours; and those with 20 or more years, 187.5 hours. Staff at the School for the Deaf and the Indiana School for the Blind and Visually Impaired are permitted to use sick time when necessary, but the use of vacation and personal leave is limited throughout the school year because of the demands of the school schedule. Staff do not work during the two-week break for the winter holidays, one-week break for spring, and the approximately 10-week break during the summer months. Current practice has been to give a cash payout to teachers of any vacation leave balances accrued in excess of 30 days.]

*Turnaround Academies-* The bill would create a turnaround academy for a school that remains in the lowest performance categories for a fifth year. The academy could contract with a school corporation for goods or services. If the State Board of Education uses a special management team, then the team can use the school building. The school corporation is responsible for maintaining the school building and transporting the students to the turnaround school. The special management team would not be subject to the state collective bargaining law.

The turnaround students are to be counted in the tuition support formula of their legal settlement. The Department of Education is allowed to deduct from the school corporation a portion of their tuition support to cover the cost of operating the academy. The maximum amount that can be used is the total per student funding for the affected students.

*Department of Education -* The bill affects HEA 1003 (2011) by changing a visitation requirement for the DOE relative to schools and charter schools with school scholarship students. The bill reduces the administrative impact due to HEA 1003 (2011) that requires the DOE, at a minimum, to annually visit each school and charter school with school scholarship students to verify that the school complies with the requirements of the school scholarship program and law, and the Indiana and United States Constitutions and, instead, requires the Department to make random visits. The bill also requires each school and charter school with school scholarship students to certify to the Department that the school is in compliance with the school scholarship program and the law. The bill also requires the Department to develop a process for such schools

to make these certifications.

### Higher Education

*Scholarship Grants and Awards Programs-* Mitch Daniels Early Graduation Scholarships: The bill provides a \$4,000 Mitch Daniels Early Graduation Scholarship for each high school student who graduates a year early. The student would have to complete the necessary courses by Grade 11, apply for the grant, and enroll in an approved postsecondary education institution. The impact would depend on the number of students who might choose to graduate early. The state tuition support distributions to local schools would be reduced by the amount of the scholarships granted in each year.

There would be a reduction in tuition support for the schools where the Mitch Daniels Early Graduation Scholarship recipient graduated in the following school year. The reduction in state tuition support would equal the additional funding the school receives from counting the student in the current ADM in the last year the student attended the school. The possible saving from not attending senior year would vary between \$600 to \$3,000 depending on the school corporation where the student resides. The median saving is about \$1,490 per student (the average tuition support of \$5,490 minus the \$4,000 scholarship).

During the 2009-2010 school year, there were about 77,900 11th grade students and 73,000 12th grade students. There are about 4,200 to 5,500 11th graders who do not become 12th grade students for each age cohort.

For each 300 students that graduated early (about 0.4% of 11th grade students) and received a scholarship, the cost of the scholarships is \$1.2 M (\$4,000 X 300) and the total reduction in tuition support to local schools would be \$1.7 M, resulting in a net savings in tuition support of about \$0.5 M.

*SSACI Transfers:* The bill would allow the State Student Assistance Commission to transfer money from the Freedom of Choice Grant Fund to the Higher Education Award Fund after the commitments of the Freedom of Choice Grant have been met. The Freedom of Choice Awards totaled about \$43.7 M in FY 2007 and increased to \$52.5 M in FY 2009, and the Higher Education Awards were about \$119.6 M in FY 2007 and increased to \$144.4 M in FY 2009. The bill would allow greater flexibility in the use of scholarship funding. Currently, the transfer can only be made from the Higher Education Award Fund to the Freedom of Choice Grant Fund.

*Priority Dual Credit Courses:* The Commission for Higher Education would be able to identify a set of courses offered by high schools and that receive postsecondary credit and state funding as priority dual credit courses. The Commission would also set the tuition and fees that could be charged for the courses. There should be no fiscal impact to the Commission. The impact on state educational institutions would depend on the rate set by the Commission. [The tuition charged by universities for other students for dual credit courses varies from \$0 to \$89 per credit hour. The cost is below the tuition charged for a full-tuition student, which ranges from \$132 to \$263 per credit hour.]

*University Drug Purchasing:* The bill would require state education institutions to participate in the state aggregate prescription drug purchasing program unless the Budget Agency determines participation would not result in a savings. Currently, state education institutions may choose to participate, but are not required to participate. Three state educational institutions currently participate in the program and four do not.



*Capital Project Requirements:* Under current law, if a public works project is estimated to cost more than \$25,000, the sponsoring state agency has to adopt plans and specifications and award a contract to perform the work under a sealed bid process after advertising for bids. A state institution of higher learning can, however, either use its own workforce to complete the project or invite bids from at least three contractors if the estimated cost of the project is less than \$50,000.

This bill raises the threshold for a state institution, either using its own workforce or inviting bids, from \$50,000 to \$150,000.

If the institution chooses to use its own workforce, this would increase the number and types of projects that could be completed under this provision. This could reduce expenditures because the institution would not have to contract for additional outside services. On the other hand, if the institution decides to contract out the work, this would reduce the administrative expenses (by forgoing the sealed bid process) for those projects between \$50,000 and \$150,000.

*Purdue University Capital Project Requirements:* Current law permits Purdue University to invite bids from three or more contractors (instead of using the more extensive sealed bid process) if the project is on agricultural or forestry land owned or occupied by the university and is estimated to cost less than \$50,000. This bill would raise the limit to \$200,000. This would reduce the administrative expenses for those projects between \$50,000 and \$200,000.

*Higher Education Project Approvals:* The bill changes the threshold of various projects where the approval of the Higher Education Commission is required. The bill could simplify and reduce the time for certain capital projects to be approved. The impact is minor.

*Higher Education Financial Needs Test:* The bill clarifies that the needs test for the 21<sup>st</sup> Century Scholars program as added by SEA 575 only applies to students who enroll in the program after July 1, 2011.

### Various Tax Provisions

*Internal Revenue Code Update-* The Department of State Revenue (DOR) will incur additional expenses to revise instructions and computer programs and create separate EITC tables to reflect the addback and recomputation provisions in the bill for purposes of decoupling from federal tax law provisions.

*Revenue Surplus:* The bill provides for: (1) additional contributions to be made to the Pension Stabilization Fund and (2) nonrefundable tax credits to be paid to eligible Individual AGI Tax filers when state reserves exceed a level specified in the bill. The payments specified in (1) and (2) would occur whenever reserves at the end of a fiscal year exceed 10% of the general revenue appropriations for the current fiscal year and accounts payable are not unusually large as a percentage of state reserves. Under the bill, half of the surplus amounts above 10% will be transferred to the Pension Stabilization Fund and half will be paid as nonrefundable tax credits. The earliest that payment of surplus amounts above 10% to the Pension Stabilization Fund could be made is FY 2012, and the earliest that tax credits could be paid from surplus amounts could be tax year 2012.

To receive the tax credit, a taxpayer must have filed a resident AGI tax return for the two taxable years preceding the tax year in which the tax credit is made available. The tax credit must be taken against the AGI Tax liability during the tax year that the tax credit is provided under this bill. The tax credit is not refundable

and may not be carried forward. Each eligible taxpayer receives a tax credit equal to the taxpayer's pro rata share of individual income taxes paid by all eligible taxpayers during the preceding tax year.

*DOR Administration-* The bill makes two changes relating to DOR administrative procedures.

(1) The bill reduces the return filing threshold that determines whether a professional tax preparer must file tax returns with the DOR in an electronic format. Current statute provides that professional tax preparers that file more than 100 returns in a calendar year must file the returns in electronic format. The bill reduces the threshold to 50 returns in CY 2012 and 10 returns beginning in CY 2013. This change will result in administrative cost savings to the DOR, with the total savings dependent on the number of returns that are filed electronically in lieu of paper filings due to the bill. The DOR reports that it costs \$0.08 to process an individual income tax return filed electronically versus \$2 to \$3 for an individual income tax return filed in paper form.

(2) The bill requires the DOR to publish on DOR's web site the information needed to communicate a person's obligation to remit use tax on the exercise of any right or power of ownership over tangible personal property in Indiana for which sales tax has not been paid, including purchases using the Internet or a catalog. The DOR will be able to implement this requirement within existing resources.

#### Horse Racing and Gaming Provisions

*Indiana Horse Racing Commission (IHRC)-* The bill permits the IHRC to pay from one or more of the breed development funds the operating and administrative cost of the breed development programs beginning in FY 2012. The bill limits the amount that the IHRC annually may pay from the breed development funds for these purposes to 2% of the amount distributed to the breed development funds during the immediately preceding state fiscal year from slot machine adjusted gross receipts (AGR) generated at the racinos. Currently, there are three breed development funds - Thoroughbred, Standardbred, and Quarter Horse. In FY 2010, the distributions from slot machine AGR to the three breed development funds totaled \$24.35 M. It is estimated that the distributions could total \$24.6 M in FY 2011 and \$23.1 M in FY 2012. Based on these estimates, the maximum amount the IHRC could use to operate and administer the breed development programs would be about \$492,000 in FY 2012 and \$463,000 in FY 2013.

*Racino Slot Machine Receipts Distribution -* The bill distributes racino slot machine adjusted gross receipts (AGR) currently distributed to state breed development funds, horse racing purses, and horsemen's associations to the Indiana Tobacco Master Settlement Agreement Fund and the State Fair Commission. These new distributions begin in FY 2012 and are described in (1) and (2) below.

(1) The bill requires the first \$3 M in annual slot AGR distributions (\$1.5 M per racino) to be distributed to the Indiana Tobacco Master Settlement Agreement Fund for the Tobacco Use Prevention and Cessation Program. This change will reduce distributions of slot AGR to state breed development funds, horse racing purses, and horsemen's associations by a total of \$3 M annually. Currently, the state breed development funds receive about 42.5% of the slot AGR distributions, so the revenue loss to these funds will total about \$1.29 M in FY 2012 and \$1.3 M in FY 2013.

(2) The bill requires \$1 M of the annual slot AGR distributions to standardbred horse racing purposes to be distributed to the State Fair Commission for standardbred racing purposes. The new annual distributions would be \$750,000 (\$375,000 per racino) to support standardbred racing and facilities at the state fairgrounds

and \$250,000 (\$125,000 per racino) for grants to support standardbred racing and facilities at county fair tracks. Half of the slot AGR distributions to standardbred horse racing purposes is directed to the state standardbred fund. Consequently, this will reduce revenue to the state standardbred fund by \$500,000 annually.

The revenue loss to the state breed development funds due to the new distributions in (1) and (2) is reported in the table below.

<b>Breed Development Fund</b>	<b>Reason for Revenue Loss</b>	<b>FY 2012</b>	<b>FY 2013</b>
Thoroughbred	Tobacco Use Prevention/Cessation distribution	\$541,000	\$547,000
Standardbred	Tobacco Use Prevention/Cessation distribution	676,000	684,000
Standardbred	State Fair/County Fair distribution	500,000	500,000
Quarter Horse	Tobacco Use Prevention/Cessation distribution	70,000	71,000

### Salaries and Personnel

*Legislative and Judicial Salaries-* Judicial Salaries – Under current law, the salaries of judicial officers (including justices, judges on the court of appeal, trial court judges, magistrates, prosecuting attorneys, and deputy prosecuting attorneys) are increased by either adjusting the specified salary in statute or, as determined by the budget director, based on the salary changes of state employees in the state executive branch in a similar salary bracket. As proposed, the salary increases for these judicial officers would have to be approved effective either July 1, 2011, or July 1, 2012, by the Chief Justice of the Indiana Supreme Court for these increases to take effect. There would be 644 court officers, including prosecuting attorneys, who would be affected by this provision. Depending on the decision of the Chief Justice, a 1.3% salary adjustment (an amount provided to state employees effective January 1, 2011) would be equivalent to \$1.08 M in FY 2012 and FY 2013.

*Legislative Salaries-* This bill would also freeze legislative salaries for FY 2012 and FY 2013. Savings from forgoing a 1.3% increase would be approximately \$174,100 annually. Savings could increase from both of these provisions if state employees were to receive subsequent salary increases in FY 2012 or FY 2013.

*State Personnel Department and the State Civil Service System-* This bill establishes the State Civil Service System and the State Personnel Department. The bill also repeals the current State Merit System for employment, as well as other superseded statutes. The State Civil Service System incorporates many of the current provisions that are in practice under the State Merit System. The duties assigned to the State Personnel Department by this bill do not differ significantly from the current duties assigned to the State Personnel Department and its director. Thus, any impact should be minimal.

*Retirement Medical Benefits and Self-Insurance-* The bill excludes the Excise Police, conservation enforcement officers, and State Police from participating in the retirement medical benefit plan.

The Budget Agency must transfer a specified amount to be used by the State Police, conservation officers, and the State Excise Police to reduce unfunded post-employment benefit liability and not to increase benefits or reduce premiums. Although the officers will no longer receive reimbursement from personal accounts for health insurance premiums upon retirement, they will have access to health insurance through their respective state agencies. Currently, premiums for a family plan for conservation officers aged 50 to 55 is \$360 per

month. For retirees 55 and over, the premium for a family plan is currently \$280. The plan provides supplemental insurance for those on Medicare. It is anticipated that premiums will increase in the future due to increases in the costs of health care. These provisions should reduce expenditures and help toward reducing unfunded liability.

*Leave Conversion Pilot Program-* The bill authorizes the legislative branch and the judicial branch to reestablish a leave conversion pilot program through June 30, 2013. The impact will depend on legislative and judicial branch actions and appropriations.

*Thirteenth Check Provisions-* For members of the Teachers' Retirement Fund, Pre-1996 Fund, there will be a one-time payment of \$17.8 M in FY 2012. For members of the 1996 Fund, there will be a one-time payment in FY 2012 of \$800,000.

For the Public Employees' Retirement Fund (PERF), the cost of providing a 13<sup>th</sup> check is shown in the table below.

13 <sup>th</sup> Check	State
Change in Unfunded Accrued Liability	\$8.8 M
Change in Annual Funding	\$1.8 M
Change in Annual Funding as % of Pay	0.1%

The funded status for the combined state and local PERF funds would decrease from 85.12% to 84.99%.

The funds affected for the impact on annual funding are the state General Fund (55%), or \$990,000, and various dedicated funds (45%), or \$810,000

For the State Excise Police, Gaming Agent, Gaming Control Officers, and Conservation Enforcement Officers' Retirement Fund, there would be a one-time payment of \$338,000.

### Social Services

*FSSA Provisions:* The bill creates the Council on Evansville State Hospitals. The Council consists of 13 members who are not entitled to travel or salary per diem. Staffing and expenses of the Council are to be provided by the Division of Mental Health and Addictions (DMHA). The DMHA reports that if the combined operation of the Evansville Psychiatric Treatment Center for Children and the Evansville State Hospital is recommended by the Council on Evansville State Hospitals, the combining of the operations could result in cost savings of approximately \$673,000 per year.

*Residential Care Assistance Program (RCAP) Changes:* FSSA reports the changes made to RCAP nonmedical assistance would reflect historic and current practice.

*Repeal of Community Residential Council:* The provisions of the bill that repeal the Community Residential Council and transfer the Council's duties to the Division of Disability and Rehabilitative Services (DDRS) are expected to save the state approximately \$4,000 per year on Council expenditures.

*Developmental Disability Waiver Slots:* The bill will also increase the workload of the Office of Medicaid Policy and Planning (OMPP) by requiring OMPP to petition the U.S. Department of Health and Human Services to amend a waiver to set an emergency placement priority for individuals in certain situations.

*Medicaid Home and Community-Based Services Waivers:* The bill requires the FSSA to reduce the aggregate and per capita cost of the waiver by implementing certain changes to the program. The FSSA reports this provision is expected to result in cost savings which are indeterminable at this time. However, as a result of decreasing program costs, FSSA anticipates enrolling more people in the program, resulting in no change in expenditures to the state.

*First Steps Program Changes:*

(1) Maximum Monthly Cost Share: The bill doubles the current maximum monthly cost share for the First Steps Program (excluding families who are either between 0% and 250% or above 1,001% of the federal poverty level). This change is estimated to save the state a maximum of approximately \$20,000 within the first year of implementation.

(2) First Steps Program Third-Party Liability (TPL) Payments: The bill changes language regarding TPL plans for the First Steps Program. FSSA reports these changes will dramatically decrease administrative time that is required to submit numerous requests for reimbursement to TPL payors.

(3) Coding Changes: The FSSA estimates the changes made to the First Steps Program would require changes in the program's coding system. The FSSA estimates the costs of making these changes to be a one-time \$200,000 cost. This expenditure is expected to be offset from cost savings resulting from program changes.

*Medicaid Provisions-*

*Nursing Facility Bed Holds-* The bill provides that Medicaid will not reimburse nursing facilities to hold or reserve a bed when a recipient is out of the facility for care in a hospital or for other therapeutic reasons. It voids a Medicaid rule that provides for this reimbursement and requires OMPP to submit a State Plan amendment to implement the provision. This provision is expected to result in state savings of \$0.8 M annually.

*Collections of Medicaid Overpayments:* The provisions affecting the collection of Medicaid overpayments should result in increased collections of amounts owed to the state and federal government. The fiscal impact would depend on the extent to which overpayments are made, identified, and subsequently collected. OMPP reported that the current hearing and appeal process can delay the collection of overpayments for years. OMPP has reported that the overpayment balance is in excess of \$28 M and that the current collection rate for all identified overpayments is less than 30%. Through the vehicle of the Quality Assessment Fee, the bill would provide \$13.9 M in FY 2012 and \$6.4 M in FY 2013 to address prior year nursing facility overpayments identified for recovery by the federal Centers for Medicare and Medicaid Services (CMS).

*Quality Assessment Fee (QAF):* This bill authorizes OMPP to apply to CMS for approval to increase the amount of the QAF to the maximum percentage allowed by federal law on July 1, 2011, and October 1, 2011, and extend the collection of the fee for three years - until June 30, 2014. Medicaid waiver and plan amendments are generally considered to be administrative in nature and achievable within the current level of resources available to the OMPP. OMPP will be required to revise the current assessment methodology

and the distribution of the collections. Should federal financial participation become unavailable to provide for the additional reimbursement, the bill provides that OMPP will cease to collect the QAF. The bill specifies that any increase in reimbursement due to maximizing the QAF is to be exclusively used for initiatives to promote and enhance improvements in quality of care for nursing facility residents.

Distribution of QAF expenditures: This bill requires the following percentage distributions of the QAF collections for three years.

<b>Designated Purpose</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Nursing Facilities Services	67.1 %	66.5 %	70.6 %
Other Medicaid Services	23.8 %	29.4 %	29.4 %
To Pay Prior-Year Nursing Facility Overpayments	9.1 %	4.1 %	

If the maximized QAF results in annual collections of \$153.2 M in FY 2012 and \$156.2 M in FY 2013 and FY 2014, the amounts shown below would be available to leverage federal funds for the designated purposes.

<b>Designated Purpose</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Nursing Facilities Services	\$ 102.8 M	\$ 103.9 M	\$110.3 M
Other Medicaid Services	\$ 36.5 M	\$ 45.9 M	\$ 45.9 M
To Pay Prior-Year Nursing Facility Overpayments	\$ 13.9 M	\$ 6.4 M	
<b>Total</b>	<b>\$ 153.2 M</b>	<b>\$ 156.2 M</b>	<b>\$ 156.2 M</b>

*Nursing Facility Bed Certificate of Need/Medicaid Certification Moratorium:* The bill further extends the existing moratorium on certification of new nursing facility beds for participation in the Medicaid program and prohibits the certification of Medicaid beds in a new facility unless the beds are replacements or relocations of existing certified beds.

The State Department of Health has reported in the past that extending the administration of a moratorium on the certification of new nursing facility beds would have a negligible fiscal impact. The Department would likely reject applications for Medicaid or Medicare certifications for affected facilities until the expiration of the moratorium on June 30, 2014. Since Medicaid allowable fixed cost is distributed on the basis of licensed bed capacity, a moratorium on the number of certified beds would not be expected to constrain costs in the Medicaid program until the demand for certified beds would increase towards the statewide cap of 95% occupancy. (Kaiser Foundation identified 2009 certified nursing facility occupancy in Indiana was 80.8% in 495 facilities.)

The prohibition on the certification of Medicaid beds in new facilities unless the certified beds are replacement beds or relocated beds will have no impact on constraining nursing facility costs within the Medicaid program. The extent to which additional fixed costs are reimbursed by Medicaid will depend on the number of additional facilities that may be constructed and administrative actions with regard to the treatment of fixed costs in the rate-setting methodology.

*Children's Health Insurance Program (CHIP) Eligibility Provision:* The bill reduces the income eligibility

for CHIP from 300% of the federal poverty level (FPL) to 250%, resulting in cost avoidance of \$0.6 M in FY 2012 and \$1.3 M in FY 2013 by eliminating the need to implement this expansion of eligibility. No children currently receiving services would lose CHIP coverage as a result of this provision - currently, the income eligibility for the CHIP program is 250% of FPL. OMPP was approved by CMS in January 2010 to expand the eligibility to the legislatively mandated 300% level and had planned to implement the expansion July 1, 2011. The expansion was estimated to cover an additional 146 children each month for two years, resulting in 3,500 children receiving CHIP coverage. The income eligibility would impact a family of four with annual income over \$55,125 but less than \$66,150.

*Medicaid Preferred Drug List (PDL)/ Drug Utilization Review (DUR):* Medicaid and CHIP mental health drug provisions would specify the restrictions that may be placed on mental health-related prescription drugs through the Drug Utilization Board and the PDL.

*ISDH and Pulse Oximetry Screening-* The bill requires that beginning January 1, 2012, infants must be given a pulse oximetry screening examination to detect low oxygen levels. The bill also requires the ISDH to develop procedures and protocols for the testing and to report specified information to the Legislative Council by October 31, 2011. The total fiscal impact of adding an additional screen to the Newborn Screening Program is indeterminate. The ISDH has reported an additional annual cost of \$210,400 to add the additional screening to the panel currently included within the Newborn Screening Program. The Medicaid Program has reported that additional cost is anticipated to be minimal if the cost of the test is incorporated within the DRG payment for screening occurring within a hospital setting. There may be potential impacts on state and local costs associated with employee health benefit plans.

*ICHIA Premium Rates-* This bill sets the Indiana Comprehensive Health Insurance Association (ICHIA) premium rates at 150% of the average rate of the five largest commercial carriers. It revises the eligibility requirements for an ICHIA policy to require applicants to first apply for the federal pre-existing condition insurance plan and the Healthy Indiana Program (HIP). The ICHIA provisions in this bill could reduce expenses by a total of \$6.15 M annually.

### Miscellaneous State Provisions

*Correctional System Healthcare Provisions:* This provision will cap the amount that health care providers can charge the Department of Correction (DOC) for medical services for confined offenders to 4% above the federal Medicare reimbursement rate. If there is no federal Medicare reimbursement rate, the state will reimburse the health care provider or hospital at 65% of the amount charged by the health care provider or hospital that is specified by the charge master of the health care provider or hospital. Current law has the same cap for services charged by healthcare providers for persons in county jails. DOC currently contracts with Correctional Medical Services for providing healthcare and medical services to confined offenders. This contract runs for the period between September 1, 2009, and August 31, 2011. This contract is worth \$276.8 M. Depending on what the current contract specifies, this provision could reduce costs to DOC for providing medical services to confined offenders.

*Other DOC Provisions:* DOC may provide assistance for tuition, books, and supplies to confined offenders who enroll in an eligible institution. This institution must operate in Indiana; be either operated by the state or a nonprofit organization; operate an organized program of postsecondary education leading to a technical certificate, nursing diploma, or associate or baccalaureate degree; and be accredited by a recognized regional accrediting agency, the Indiana Commission on Proprietary Education, or the Indiana State Board of Nursing.

*GPS Tracking-* This provision specifies that GPS tracking of sexually violent predators and sex and violent offenders as a condition of parole is subject to the amount appropriated to the Department of Correction for its monitoring program. Currently, DOC estimates the cost of monitoring sex offenders as \$5 M in 2012 and \$6.3 M in 2013.

*Bonding Requirements-* This bill outlines certain conditions which must be met before the state moral obligations may be used by the Indiana Bond Bank to ensure adequacy of debt service reserve funds. These conditions include a written finding that revenues available to the qualified entity exceed by at least 20% of the required annual debt service. If financing is to be supported by revenue from fees, user charges, or property taxes, the qualified entity agrees to increase the revenue source or pledge sufficient property taxes, user fees, hook up fees, or any other local revenues to satisfy the reserve fund requirements before using the moral obligation of the state. Also funds available to the qualified entity through state distributions may be withheld to recover any funds provided by the state. The bill also provides that certain information must be provided to the State Budget Committee and the State Budget Agency if a reserve fund is to be created under these provisions.

The bill also restricts the length of terms for bonds issued by the Port Authority after June 30, 2011, to a maximum of 25 years.

*Indiana Tobacco Use Prevention and Cessation Executive Board:* The bill eliminates the Indiana Tobacco Use Prevention and Cessation Executive Board and transfers the appropriations, powers, and duties of the executive board to the Indiana State Department of Health. This provision should result in minor savings to the state in the amount of the operating costs incurred for meetings of the executive board. No duties or responsibilities are diminished by the transfer, and operating costs will transfer to the ISDH. The bill contains total annual appropriations for the Tobacco Use Prevention and Cessation Program of \$8.1 M. The bill requires 85%, or \$6.84 M, to be used for grants designed to reduce smoking, leaving \$1.26 M for administration of the program.

*Public Deposits Insurance Fund (PDIF) Loan-* Pursuant to P.L. 224-2003, the Indiana Board for Depositories transferred a \$50 M interest-free loan to the state General Fund in FY 2004. The loan was to be repaid prior to January 1, 2013. This bill extends the loan repayment to the PDIF to June 30, 2023.

#### *Study Topics-*

*Interim Study Committee on Employment Issues:* This bill establishes the Interim Study Committee on Employment Issues. The committee is to operate under the policies governing study committees adopted by the Legislative Council. In the past, Legislative Council resolutions have established budgets for interim study committees in the amount of \$9,500 per interim for committees with fewer than 16 members. The committee is to issue a final report before November 1, 2011, to the Legislative Council concerning findings and recommendations about laws related to (1) whether an employee should be required to join an employee organization as a condition of employment and (2) project labor agreements.

*Criminal Justice Institute Studies:* The bill requires the Criminal Justice Institute to study the use of diversion and deferral programs and plea bargaining in Indiana. Based on the experience of the Division of State Court Administration in contracting for past studies of courts, these studies may cost between \$30,000 and \$60,000 based on hiring outside consultants.



## Local Taxes

*Supplemental Distributions-* This bill requires the State Budget Agency to publish statewide estimates of the local option income tax (CAGIT, COIT, and CEDIT) certified distributions, specifying the amount of certified distributions attributable to the additional tax rates adopted for property tax relief, public safety, and to freeze property tax levies. The State Budget Agency should be able to carry out this provision within their existing resources.

**Explanation of State Revenues:** The bill has the following provisions.

## Various Tax Provisions

*Internal Revenue Code Update-* The bill updates the reference to the Internal Revenue Code to incorporate federal changes made up to January 1, 2011. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2010. The update would include changes as a result of the following federal acts: (1) The *Small Business Jobs Act of 2010* (P.L. 111-240), signed into law on September 27, 2010; and (2) The *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (P.L. 111-312), signed into law on December 17, 2010. It is estimated that these federal acts should not generate a material fiscal impact because the bill decouples from various provisions of the acts determined to have a fiscal impact.

*Cigarette Tax Revenue Provisions:* The bill provides that 5.74% of the revenues collected from the Cigarette Tax are to be deposited into the state General Fund rather than the State Retiree Health Benefit Trust Fund during the biennium ending June 30, 2013. This would increase revenues to the state General Fund by \$27.1 M in FY 2012 and \$26.8 M in FY 2013, and the amount distributed to the State Retiree Health Benefit Trust Fund will be reduced by the same amount during this period. The distribution returns to the current percentages beginning in FY 2014.

*Sales and Use Tax Provisions-* Sales Tax Exemption: This bill clarifies that the Council of State Governments (CSG) is exempt from gross retail and use taxes for transactions during the Midwest Legislative Conference in July 2011.

Sales Tax on Remote Sales: This bill requires the State Budget Agency before September 1<sup>st</sup> of each year to certify to the Budget Committee whether any excess of use taxes has been collected from remote sellers and the amount of excess if any. The bill also provides that any excess amount collected shall be deposited in the General Fund to be allotted to the Pension Stabilization Fund.

Sales Tax Revenue Distribution: This bill changes the distribution of Sales Tax revenue. The bill provides that the 0.67 % of Sales Tax revenue currently deposited in the Public Mass Transportation Fund is to be deposited in the state General Fund. This provision is estimated to increase revenue to the General Fund by \$44.0 M in FY 2012 and \$45.9 M in FY 2013. The bill makes a line item appropriation of \$85.2 M to the Public Mass Transportation Fund over the biennium.

*Three-Way Alcoholic Beverage Permit Fees:* This bill could increase revenue collected from the issuance of three-way alcoholic beverage permits to businesses currently operating under a one-way or two-way permit and located in a city or town with a population between 20,000 and 25,000. The amount of the increase will ultimately depend on the number of current permit holders that apply for and are granted a three-way permit under the bill subject to quota restrictions. The fee for a three-way permit is \$1,000, while

the fee for a two-way permit is \$750 and \$500 for a one-way permit. These fees are deposited in the Excise Fund and then redistributed 37% to the state General Fund, 33% to the general funds of cities, towns, and counties based on population, and 30% to the Enforcement and Administration Fund.

According to the 2010 population census, there are four towns and three cities with a population between 20,000 and 25,000. The table below shows the locations affected and the number of one-way and two-way dealer permit holders in each of these locations according to the ATC's quota report from April 2011.

	<b>Number of One-way and Two-way Retailer Permits</b>
Brownsburg Town	16
Clarksville Town	20
Highland Town	9
Munster Town	7
Franklin City	23
Greenfield City	16
LaPorte City	14

### Social Services

#### *FSSA Provisions-*

*First Steps Program Changes:* (1) Third-Party Liability Payments: FSSA estimates that with the implementation of capitated rates, state revenue from TPL payments for First Steps services will increase by \$4 M per year.

(2) State Tax Intercept: Under the bill, if a family is more than 60 days delinquent in making First Steps cost participation payments, the DMHA would be authorized to offset a person's state tax refund to apply to any unpaid balances. This process may increase revenue received by agencies that provide First Steps services. The actual increase in revenue is indeterminable; however, the FSSA estimates this provision may increase revenue received from state tax intercepts by at most \$200,000 annually.

(3) Unit of Treatment Change: Under the bill, the unit of treatment for the First Steps program will change from 1-hour increments to 15-minute increments. FSSA estimates this change will result in consumers utilizing the right amount of services for their needs, which would result in less services. The associated cost savings are estimated to be \$1.2 M.

#### *Medicaid Provisions-*

*Extension of the QAF:* Extending the authorization for the collection of the QAF and maximizing the amount to be collected from July 31, 2011, to June 30, 2014, would authorize an estimated annual collection of about \$153.2 M for FY 2012 and \$156.2 M for FY 2013 and FY 2014, if nursing facility days remain constant. The ultimate QAF collections will depend on federal actions. Extension of the QAF would allow the state to continue receiving \$19.6 M in funding to be used for the Medicaid Program. The provision allowing for the

maximization of the amount the QAF collects and the change in the distribution of funds will result in additional state dollars for Medicaid of \$16.9 M for FY 2012, and \$26.3 M for each of FY 2013 and FY 2014. The total annual collections and the state share of the collections from both provisions are estimated as follows.

<b>Fiscal Year</b>	<b>Total QAF Collections</b>	<b>State Benefit From</b>		
		<b>Extension of QAF</b>	<b>Maximization</b>	<b>Total Collections</b>
2006	\$ 327.4 M	\$ 62.7 M		
2007	\$ 108.4 M	\$ 21.7 M		
2008	\$ 103.4 M	\$ 20.7 M		
2009	\$ 96.5 M	\$ 19.3 M	\$ 14.5 M @	\$ 33.8 M#
2010	\$ 98.8 M	\$ 19.8 M	\$ 19.8 M @	\$ 39.6 M
2011*	\$ 98.2 M	\$ 19.6 M	\$ 9.8 M @	\$ 29.4 M#
2012*	\$ 153.2 M	\$ 19.6 M	\$ 16.9 M	\$ 36.5 M
2013*	\$ 156.2 M	\$ 19.6 M	\$ 26.3 M	\$ 45.9 M
2014*	\$156.2 M	\$ 19.6 M	\$ 26.3 M	\$ 45.9 M
* Estimated; assumes nursing facility days remain constant.				
@ Estimated temporary increase in state share for ARRA stimulus.				
# Temporary increase in state share is for less than a full year.				

Medicaid is jointly funded by the state and federal governments. The effective state share of program expenditures is approximately 33.5% for most services. Medicaid medical services are matched by the effective federal match rate (FMAP) in Indiana at approximately 66.5%. Administrative expenditures with certain exceptions are matched at the federal rate of 50%. Federal ARRA provides that enhanced Medicaid stimulus funding will be available to the state until December 31, 2010. An amendment to the ARRA subsequently extended phased-down stimulus funding until June 30, 2011.

*Hospital Assessment Fee-* The bill authorizes a hospital assessment fee for a period of two years beginning July 1, 2011, and ending June 30, 2013. The bill specifies dates for required submissions and federal approvals that may not be achievable. The bill will suspend the current hospital supplemental distribution programs during the term of the assessment fee and specify alternate Disproportionate Share Hospital (DSH) program payments for the term of the fee. The fee would be set at the level necessary: (1) to reimburse Medicaid services on parity with Medicare to the extent possible; (2) to replace state-operated facility DSH distributions currently available to be made to the state (approximately \$70 M); and (3) to provide approximately \$50 M in additional funding to the state for Medicaid expenditures. It is currently estimated that approximately \$420 M would be necessary to be raised in assessment fees to accomplish these purposes.

If the fee raises \$420 M in funds, the state would be allocated 28.5% to use for other Medicaid purposes; 71.5% would be required to be used for hospital purposes. The state share would be expected to result in about \$120 M. Of this amount, \$70 M would be necessary to replace the state DSH funding for state-operated facilities. The balance of about \$50 M would be used to provide Medicaid services - potentially replacing state general funds.

The bill establishes the Hospital Assessment Fee Committee (HAF Committee) to review and approve certain actions of OMPP. It also specifies that if the fee is not approved by CMS, if the HAF Committee does not approve certain actions of the OMPP, or on an appellate court order, the fee would cease to be collected.

## Courts

*Automated Record Keeping Fee-* This provision will result in an annual revenue loss of \$280,000 beginning in FY2012 and years after.

<b>Change in Revenues from Automated Record-keeping Fees Deposited in State User Fee Fund</b>				
	2012	2013	2014	2015
Revenue (in \$M) Based on \$5 Fee (New)	\$5.00	\$5.00	\$5.00	\$5.00
Revenue (\$M) Based on \$4 Fee (Current Law)	<u>\$4.00</u>	<u>\$4.00</u>	<u>\$4.00</u>	<u>\$4.00</u>
Added Revenue From Fee Changes	\$1.00	\$1.00	\$1.00	\$1.00
Less: 80% Share of added fee from Counties with no Odyssey*	(\$0.16)	(\$0.16)	(\$0.16)	(\$0.16)
Less: 80% Share of current revenue from Counties with no Odyssey *	<u>(\$1.12)</u>	<u>(\$1.12)</u>	<u>(\$1.12)</u>	<u>(\$1.12)</u>
Revenue Loss to State User Fee Fund	(\$0.28)	(\$0.28)	(\$0.28)	(\$0.28)
* 20% of fees will be transferred to the Clerk's Record Perpetuation Fund in counties that do not use Odyssey.				

*Public Defense Administration Fee-* The clerk of the court is to collect the public defense administration fee in the following amounts: \$3 before July 1, 2011, and \$5 after June 30, 2011. This additional fee is expected to increase fee revenue by \$2 M annually, which is deposited into the state General Fund. It increases the semiannual amount that the Auditor of State transfers for deposit into the Public Defense Fund from \$2.7 M to \$3.7 M beginning July 1, 2011.

*Kinship Guardianship Assistance:* This change will allow the Department of Child Services the opportunity to draw down additional federal IV-E funds as provided by the federal Fostering Connections to Success and Increasing Adoptions Act of 2008. As reported by the DCS, any impact to increasing federal funds the state receives is indeterminable.

## Miscellaneous Provisions

*Quorum Breaking-* This bill creates a civil penalty for any member of the General Assembly who is absent for more than three days resulting in the member's body being unable to form a quorum. This does not apply to a member who has been excused by the presiding officer or has an illness or injury verified by a licensed physician. The bill allows the Speaker of the House or the President Pro Tempore to bring a cause of action against the absent member and control litigation including final settlement authority. A civil penalty of \$1,000 per day may be imposed against a legislative member who violates this provision. Attorney fees and court costs may also be assessed. Any civil penalties would be deposited in the General Fund. The Attorney General may not defend a member in an action related to legislative bolting.

## Local Taxes-

*Tippecanoe Innkeeper's Tax-* Under current law, 30% of the Tippecanoe County Innkeeper's Tax is deposited for use by the Department of Natural Resources (DNR) for development projects in the White River State Park. This provision would allow that revenue to be deposited in the state General Fund for an unspecified use from July 1, 2015, to June 30, 2017. (30% of total FY 2010 Innkeeper's revenue is approximately \$0.5 M.)

**Explanation of Local Expenditures:** The bill has the following provisions.

## K-12 Education

*Charter Schools- Conversion Charter School Transfer:* The bill allows a school corporation to transfer money from their corporation to a conversion charter school created by the school corporation. The amount of the transfer is limited to the difference in tuition support funding per student between the corporation and the conversion charter times the charter school's ADM. There is currently one conversion charter school in Indiana, Signature School, with Evansville-Vanderburgh School Corporation as the sponsor. Under the school formula in the bill, Evansville-Vanderburgh School Corporation will receive about \$6,289 for CY 2012 and \$6,435 for CY 2013 in tuition support per student, and Signature School will receive about \$5,385 for CY 2012 and \$5,290 for CY 2013. Signature School is projected to have an ADM of 338 for CY 2012 and 350 for CY 2013. The maximum transfer is about \$305,552 for CY 2012 and \$400,750 for CY 2013.

*Miscellaneous K-12 Provisions- Special Education Grants:* The bill changes the effective date of HEA 1341 (2011) to July 1, 2011, instead of January 1, 2011, for the definitions of "child find" and parentally placed nonpublic school students with disabilities. The provision could assist schools so they would not have to retroactively reallocate funds they had spent prior to this change.

*Salary Schedule:* Under SEA1 (2011), a teacher's salary and salary increments would be computed based on experience to include the completion of additional degrees or credit hours in the content area, performance evaluation ratings, assignments to instructor leadership positions such as an appointment as a performance evaluator, and the academic needs of students in the school corporation.

Under SEA1 (2011), compensation based on additional degrees or credits earned before July 1, 2012, would continue. This bill extends this provision to include compensation for a degree that was started before July 1, 2011, and completed before September 2, 2014. The fiscal impact would depend on local action.

*Performance Evaluation-* Under SEA1 (2011), each school corporation, charter school including virtual charter school, school created by an inter-local agreement, special education cooperative, and joint career and technical education program has to develop or adopt a plan for annual performance evaluation for each certified employee. Under this bill, an eligible school and a participating school (i.e., schools that require a student to pay tuition or transfer tuition to attend, is accredited by the state board or regional accreditation agency, and administers the ISTEP test) would also have to develop a performance evaluation plan. The cost will depend on local action.

*Adoption of Textbooks:* Under current law, a committee of teachers and parents in a school corporation recommends textbooks to the superintendent who forwards the list to the governing body. The governing body, upon receiving the recommendations from the superintendent, chooses textbooks for the corporation

from the state textbook adoption list.

Under this bill, the local advisory committees would be discontinued. Instead, except for reading textbooks, the governing body of each school corporation would determine which textbooks to use and make arrangements with the publisher for delivery. School corporations would have to select reading textbooks from the list provided by DOE. The fiscal impact is expected to be minimal.

*Skilled Trade Employees:* The bill would return the statute to current law which addresses how much schools can pay for the salaries of skilled trade employees from their capital projects fund (CPF). SEA 575 (2011) allowed all schools to pay skilled trade employees from the CPF. Current statute limits expenditures from the CPF if expenditures are greater than \$600,000. The CPF expenditures for skilled trade employees for 20 schools in FY 2010 was about \$12.2 M. SEA 575 could have an impact if more schools hired skilled trade employees. For FY 2010, schools spent about \$382,000 from their general funds on salaries for skilled trade employees.

Regarding maintenance vehicles, currently, maintenance vehicles have to be purchased from the school general fund. SEA 575 would allow schools to purchase maintenance vehicles from their CPF. Schools spent about \$1.1 M from their general funds to purchase maintenance vehicles in FY 2011. The bill would return the statute to current law.

*Teacher Collective Bargaining.*- The bill makes additional changes to the collective bargaining process in addition to the changes made by SEA 575 (2011). The bill specifies the bargaining process for the second year of a state biennium if the initial contract was only for the first year of the biennium. The bill also allows the Education Employment Relations Board to appoint a mediator either from the board's staff or an ad hoc panel. It clarifies that factfinding begins within 15 days after mediation and must culminate with the factfinder imposing contract terms by selecting one of the party's last best offer. The mediator can not have been a factfinder in a dispute within the last five years except by mutual consent. It is unknown if the cost of mediation and factfinding will be more or less than the current process.

[There are about 310 schools or co-ops that collectively bargain. School general fund expenditures for FY 2010 were about \$6.8 B, of which \$6.1 B were for salaries and fringe benefits. For FY 2010, schools spent about \$3.7 M on staff negotiations and relations. For the 2010-2011 school year, the Educational Employment Relations Board has analyzed 70 contracts, and the average increase in salary is 0.64% without an increment and 2.32% with an increment.]

### Local Taxes

*Allen County Supplemental Food and Beverage Tax-* This provision would allow the Allen County Capital Improvement Board of Managers to use excess revenue from the Supplemental Coliseum Improvement Fund for other capital improvements, certain economic development projects that could be funded via CEDIT, and not more than \$100,000 annually for investigation into new capital improvement or economic development projects. The provision could extend the sunset of the food and beverage tax.

Under current law, the tax is set to expire two years after the retirement of debt from the Coliseum improvement. As of December 31, 2011, Allen County had approximately \$27.3 M left in unpaid debt for improvements made to the Coliseum. The current Coliseum repayment schedule would leave the tax in place through 2028. If the retirement of capital improvement debt incurred by the board of managers extended past

the retirement of the Coliseum debt, the bill would allow the tax expiration date to extend past 2028. Tax collections have averaged \$5.3 M per year between FY 2006 and FY 2010.

*Tippecanoe Innkeeper's Tax-* This provision would allow the Wabash River Enhancement Corporation (WREC) to use its share of Tippecanoe Innkeeper's Tax revenue for WREC employee salaries and ongoing administrative and operating costs of the WREC. Current law does not allow for the revenue to be used for salary or operating costs of the WREC.

### Local Units

*Thirteenth Check Provisions-* The cost of providing a 13<sup>th</sup> check for PERF is shown in the table below.

13 <sup>th</sup> Check	Local
Change in Unfunded Accrued Liability	\$13.8 M
Change in Annual Funding	\$1.
Change in Annual Funding as % of Pay	0.03%

**Explanation of Local Revenues:** The bill has the following provisions.

### K-12 Education

*School Formula-* See *Explanation of State Expenditures*.

*School Debt Levies-* Under this provision, certain school corporations would be permitted to transfer certain amounts from their debt service levies to their capital projects, transportation, and school bus replacement funds. Eligible school corporations would include corporations that have circuit breaker losses from all funds that are at least 30% of the levies in the nondebt funds (i.e., capital projects, transportation, school bus replacement, and racial balance). Eligible schools would be able to refinance up to 50% of their existing bonds for a period not exceeding 10 years past the original term. The difference between the old debt service levy and the levy for the refinanced bond (or 0 for a retired bond) is the incremental levy amount and may be transferred, up to the amount of the circuit breaker losses, to the other funds.

In CY 2011, 31 school corporations had circuit breaker losses that were at least 30% of nondebt levies. These school corporations had total losses of \$106 M. The 18 school corporations with a loss of at least 30% and up to 45% would have to seek approval through the referendum process. The 13 school corporations with a loss greater than 45% would have to seek approval through the petition and remonstrance process. The fiscal impact would depend on actions taken by eligible school corporations.

*Textbook Reimbursement:* Under current law, the reimbursement to school corporations is based on the cost of the textbooks; under this bill the reimbursement would be based on the number of eligible students in the school corporation. As a result, those school corporations with relatively lower textbook costs could be reimbursed more; others with relatively higher textbook costs could be reimbursed less.

*New Charter School Startup Grant-* For school years after the 2011-2012 school year, this bill would allow a charter school to receive funding for its first four months of operation (from September to December).

Usually state funding under the school funding formula does not start until the following January. New charter schools would receive approximately an additional \$4.9 M in 2012 and \$4.85 M in 2013.

### Higher Education

*Scholarship Grants and Awards Programs-* Mitch Daniels Early Graduation Scholarships: Individual schools would receive a reduction in tuition support revenue based on the number of their students who take advantage of the scholarship

### Courts

*Automated Record Keeping Fee-* This bill is estimated to result in added revenue from Automated Record-keeping Fees for the clerk's record perpetuation fund. Counties that do not operate under the state's automated judicial system (Odyssey Case Management System) will receive 20% of the automated record keeping fee that is collected in that county. LSA estimates that these counties without the Odyssey Case Management System will receive an estimated 16% of all revenue that is collected statewide. Money that will be collected includes \$1.12 M from the revenue that is currently collected and \$160,000 from the \$1 increase of the automated record-keeping fee.

### Local Taxes

*Supplemental Distributions-* This bill changes the method for determining supplemental distributions for counties imposing local option income taxes. It specifies that when a county's LOIT account exceeds 150% of the certified distributions to be made in the ensuing year, then the State Budget Agency may make supplemental distributions to appropriate counties. Current statute provides that supplemental distributions must be made when a sufficient balance exists in the LOIT accounts that exceeds the amount required for certified distributions to the counties in the ensuing year. The bill also specifies that the amount of supplemental distributions attributable to additional rates must be used for those purposes, and that these amounts are not required to be deposited in the unit's rainy day fund.

**State Agencies Affected:** All.

**Local Agencies Affected:** All.

### **Information Sources:**

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